Financial Markets

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Irving Trust

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Friday (Noon)

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This Tuesday, as the FOMC was meeting, presidential spokesman Larry Speakes warned the Fed about M1's current slow rate of growth. The White House statement registered hope that the recent decline in M1, to a level below the bottom of its growth range, did not reflect a change in Fed policy. The Administration called for the Fed to boost M1 back into its "target range." Press reports of this statement were quick to mention the upcoming presidential election campaign. According to Assistant Treasury Secretary Manuel Johnson, the Treasury is concerned with hitting the monetary targets now while politics is not as much of a factor. But does the statement by the White House reflect true concern or pure politics?

In fairness to the White House, the statement reflects a symmetrical policy. Administration spokesmen have criticized the Fed for excessive as well as deficient money growth. Monetarists within the Administration have been rather vocal on the issue of stable money growth throughout the Reagan presidency. Nonetheless, last week was the first time in well over a year that M1 has been below one of its publicly announced long-term or short-term targets. The White House wasted no time in seizing the moment to criticize the Fed. Indeed, it had to act fast as this week's M1 number is widely expected to boost M1 back into the growth range.

At issue here is the relevance of the Fed's new monitoring range. First, the Administration must remember that M1 no longer is "targeted"; it is monitored. Next, the Administration must recall the substantial shift in the M1 range that occurred at mid-year. These two points are not unrelated; indeed, they are at the core of the difficulty in deciding whether or not below-range M1 growth is a problem. For my part, I don't think it is.

Financial innovation--deregulation--shifted a lot of M1's growth into the early part of the year. Thus the recent slowdown in M1's growth still has it above its original target for this year. What this underscores is that the Fed may have made a tactical error in resetting the M1 growth range at mid-year. The worst case for Fed credibility would be to hit the old target with the economy still registering decent rates of growth. Such a result is not out of the question. Quite apart from that, the Fed is treating the new monitoring range as it said it would: as a less important intermediate target. Fed policy is being based on what the real economy needs--and for now, that's not more stimulus.

The Fed has forgotten about the old target and is less concerned about the new M1 range. The Administration faces an election year and is filled with monetarists. Thus we can confidently forecast more tiffs between the Administration and the Fed as the election draws near.

Robert A. Brusca

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Market Yields

	11/18/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.25	9.38	9.00
Repurchase Agreements	9.00	9.25	8.88
U.S. Treasury Issues			
Bills			
3 months	9.15	9.08	8.34
6 months	9.56	9.48	8.63
1 year	9.87	9.85	8.98
Coupons			
2 years	10.66	10.66	9.73
4 years	11.20	11.22	10.21
7 years	11.64	11.71	10.53
10 years	11.72	11.92	10.40
Long Bond	11.80	11.84	10.32
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.30	9.20	8.85
3 months	9.45	9.35	8.95
6 months	9.60	9.55	9.05
1 year	10.05	9.95	9.40
Banker's Acceptances			
1 month	9.35	9.20	8.90
3 months	9.47	9.42	9.00
6 months	9.65	9.55	9.05
Eurodollar Deposits			
1 month	9.63	9.63	9.56
2 months	9.94	9.81	9.63
3 months	10.00	9.88	9.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.19	9.29	8.63
1 month	9.33	9.35	8.94
3 months	9.49	9.49	8.94
Bank Holding Companies			
1 month	8.94	9.25	8.81
Dealer Placed:			
3 months	9.47	9.49	8.68
New AA Corporate Utility Bond	13.00	13.10	11.80
Tax Exempt			
6 month Project Notes	5.35	5.40	4.85
1 year AAA Bond	5.50	5.30	5.50
5 year AAA Bond	7.20	6.80	7.00
20 year AAA Bond	9.35	9.20	9.50

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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